

BEFORE THE
PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2008-3-E

In the Matter of)	
Annual Review of Base Rates)	SUPPLEMENTAL TESTIMONY OF
for Fuel Costs for)	JANE L. McMANEUS
Duke Energy Carolinas, LLC)	
)	

1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.**

3 **A.** My name is Jane L. McManeus. My business address is 526 South Church Street,
4 Charlotte, North Carolina. I am Director, Rates for Duke Energy Carolinas, LLC
5 (“Duke Energy Carolinas” or the “Company”).

6 **Q. DID YOU PREVIOUSLY SUBMIT DIRECT TESTIMONY AND EXHIBITS**
7 **IN THIS PROCEEDING?**

8 **A.** Yes.

9 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

10 **A.** The purpose of my supplemental testimony is to present information supporting the
11 Settlement Agreement entered into by and among the Company, the Office of
12 Regulatory Staff (“ORS”), and the South Carolina Energy Users Committee
13 (“SCEUC”), dated August 15, 2008 (the “Settlement”).

14 **II. THE SETTLEMENT**

15 **Q. WHAT ARE THE PRINCIPAL PROVISIONS OF THE SETTLEMENT?**

16 **A.** The principal terms of the Settlement are as follows: (i) acceptance of the ORS
17 Witness Robert A. Lawyer’s pre-filed direct testimony concerning adjustments to
18 the Company’s over/under recovered fuel and environmental costs; (ii) application
19 of \$60 million of amounts over-collected by Duke Energy Carolinas through time
20 from South Carolina customers for Catawba purchased capacity levelization (PCL)
21 costs and demand-side management (DSM) costs as partial collection of the
22 Company’s South Carolina jurisdictional un-recovered fuel balance; and (iii)
23 acceptance of the fuel costs, environmental costs, and combined projected fuel

1 factors to reflect the application of the PCL and DSM over-collections to the fuel
2 rate. Further, the parties have agreed that no return will be calculated on the amount
3 applied to the recovery of unbilled fuel.

4 **Q. DOES DUKE ENERGY CAROLINAS ACCEPT THE ACCOUNTING**
5 **ADJUSTMENTS RECOMMENDED BY ORS WITNESS ROBERT**
6 **LAWYER?**

7 A. Yes, as part of the Settlement, the Company accepts Mr. Lawyer's recommended
8 adjustments to the Company's over/under recovered fuel and environmental costs.

9 **Q. PLEASE DESCRIBE THE CATAWBA PURCHASED CAPACITY**
10 **LEVELIZATION BALANCE AND THE RELATED COMMISSION**
11 **ORDERS.**

12 A. In connection with the sale of a partial ownership interest in the Catawba Nuclear
13 Station ("Catawba") in 1978-1984 to numerous municipal and cooperative electric
14 suppliers (the "co-owners"), Duke Energy Carolinas agreed to purchase capacity
15 from the co-owners in decreasing annual amounts over ten to fifteen years as their
16 load grew to utilize their shares of the Catawba energy output. In the Company's
17 rate proceedings in 1985 and 1986, the Commission approved levelization of
18 capacity costs related to these power purchases from the Catawba co-owners in
19 order to avoid rate shock and to provide rate stability. The Commission adopted a
20 5-year levelization period for the agreement with the cooperatives and a 7.5-year
21 levelization period for the agreement with the municipals. However, the
22 Commission required that, at the end of the levelization periods, a true-up would be
23 made and rates would be adjusted to reflect the end of the levelization period.

1 *Order No. 85-841*, Docket No. 85-78-E (October 8, 1985) at 34-42 (addressing
2 Catawba Unit 1), and *Order No. 86-116*, Docket No. 86-188-E (November 5, 1986)
3 (addressing Catawba Units 1 and 2) at 43-45.

4 Levelizing the costs of the purchased capacity buyback required the
5 Company to defer the difference between the level of purchased power expense
6 associated with the buy-back arrangements reflected in rates and the actual buy-back
7 costs incurred. Because the level of purchased power expense reflected in rates
8 continued after the levelization periods, the Company eventually collected more
9 than its incurred purchased power cost.

10 On May 10, 1996, the Commission approved a rate decrement rider to
11 reflect an interim true-up of the Catawba levelization costs and certain demand-side
12 management costs. *Order No. 96-337*, Docket Nos. 85-78-E, 86-188-E, and 91-
13 216-E. In this Order, the Commission observed that subsequent to the ending of the
14 stated levelization periods, Duke Energy Carolinas continued the previously
15 approved levelization accounting to defer the difference between the level of
16 purchased power expense associated with the buy-back arrangements reflected in
17 rates and the actual buy-back cost incurred. This Order requires the Company to
18 continue to account for the Catawba PCL as approved in previous Commission
19 orders, noting that the Company had commitments to continue purchasing power
20 from the co-owners through the year 2000. This rate rider (i) eliminated from rates
21 the level of purchased power expense associated with the buy-back arrangements
22 reflected in rates, and (ii) returns some of the over-collection of the purchased power
23 expense to customers.

1 Finally, on June 23, 1999, the Commission approved an accounting order as
2 another interim true-up to the Catawba PCL. The Commission's order continued a
3 rate reduction ordered by Commission Order No. 93-837 beyond June 30, 1999 until
4 further order of the Commission. This rate reduction had the effect of giving
5 customers the related profits the Company earned on a contract to sell power to
6 Progress Energy (formerly Carolina Power & Light Company) over a six year period
7 ending June 30, 1999. By continuing the rate reduction beyond June 30, 1999, the
8 rate reduction was to be offset by a true-up of the Catawba PCL account. *Order No.*
9 *1999-442-A*, Docket No. 91-216-E. The effect of this order and Order No. 96-337
10 was to return over time the over-collection of the Catawba purchased power costs to
11 customers.

12 **Q. WHAT IS THE AMOUNT OF THE CATAWBA PURCHASED CAPACITY**
13 **LEVELIZATION BALANCE?**

14 **A.** The PCL balance as of June 30, 2008 was \$83,847,000 and represents a liability
15 owed to South Carolina retail customers by the Company.

16 **Q. WHAT EFFECT WILL THE SETTLEMENT HAVE ON THE CATAWBA**
17 **PCL BALANCE?**

18 **A.** \$60 million of the Catawba PCL balance will be transferred to the deferred fuel
19 account, which will have the effect of lowering the deferred fuel account to reflect a
20 netting of a balance customers owe to the Company against an amount the Company
21 owes to customers. The effect is to accelerate the return to customers of the PCL
22 balance if the negative rider approved in Order No. 96-337 is not changed. The
23 Company estimates that the remaining Catawba PCL balance of \$24 million (\$84

1 million balance at June 30, 2008 less \$60 million transferred to the deferred fuel
2 balance) will be reduced to zero by the end of 2009, if not sooner, because of the
3 interim true-ups order mentioned earlier. To implement the Settlement provisions,
4 the estimated reduction in non-fuel rates from the interim true-up orders, equaling
5 approximately \$25 million annually, is first used to reduce the Catawba PCL over-
6 collection balance to zero and then included in the DSM deferred cost balance as a
7 liability of customers to Duke Energy Carolinas.

8 **Q. PLEASE DESCRIBE THE DEMAND-SIDE MANAGEMENT BALANCE.**

9 A. In the Company's most recent general rate case proceeding in South Carolina
10 (Docket No. 91-216-E), the Commission approved a deferred account process with
11 carrying cost coverage and subsequent cost of service amortization for DSM cost
12 recovery. Specifically, the Commission approved a Stipulation between the
13 Company, the S.C. Department of Consumer Affairs, and the Commission Staff
14 allowing for (i) the deferral of certain DSM expenses above the 1990 test year level
15 included in rates, and (ii) the addition to the deferred balance of carrying costs on
16 the balance as calculated monthly. The Commission reaffirmed its approval of this
17 cost recovery mechanism in Order No. 93-8, Docket No. 92-208-E. The recovery
18 of the balance in the deferred account was to be addressed in a subsequent general
19 rate case proceeding. However, since about 2002 the Company has over-collected
20 from customers its DSM costs. As of June 30, 2008, the balance of the deferred
21 account was \$99,609,000. This balance represents a liability owed to South
22 Carolina retail customers by the Company. The Company has proposed to flow

back at least \$87 million of the accrued balance through Rider EE (SC) as part of the Partial Settlement Agreement filed in Docket No. 2007-358-E.

Q. WHAT EFFECT WILL THE SETTLEMENT HAVE ON THE DSM BALANCE?

A. The Company estimates that the DSM deferred cost over-collected balance will be reduced by approximately \$8 million by December 31, 2009.

III. EFFECT OF THE SETTLEMENT ON PROPOSED FUEL RATES

Q. WHAT IS THE NET EFFECT OF THE SETTLEMENT ON THE COMPANY'S FUEL FACTORS?

A. The Settlement reduces the fuel rate set forth in my pre-filed direct testimony and exhibits, such that the combined projected fuel factors for the Company to charge for the period beginning with the first billing cycle in October 2008 through the last billing cycle of September 2009 by customer class are as follows:

Class of Service	SC Fuel Cost from Supplemental Exhibit 1 (¢/kWh)	SC Environmental Costs (Over)/Under Recovery from Exhibit 7 (¢/kWh)	SC Environmental Costs from Exhibit 8 (¢/kWh)	Combined Projected Fuel Factor (¢/kWh)
Residential	2.2317	-0.0217	0.0439	2.2539
General/Lighting	2.2317	-0.0168	0.0352	2.2501
Industrial	2.2317	-0.0114	0.0212	2.2415

Exhibit Nos. 6 and 9 to my pre-filed direct testimony have been updated to show the effect of the Settlement and are attached hereto as McManeus Supplemental Exhibit Nos. 1 and 2, respectively.

DUKE ENERGY CAROLINAS
SOUTHERN CAROLINA FUEL CLAUSE
2008 ANNUAL FUEL HEARING
PROJECTED FUEL COST 10/08 - 9/09
\$000

Line No.	Item	Oct. 2008	Nov. 2008	Dec. 2008	Jan. 2009	Feb. 2009	March 2009	April 2009	May 2009	June 2009	July 2009	Aug. 2009	Sept. 2009	Total
1	Fossil Fuel	\$142,339	\$137,793	\$140,175	\$148,647	\$134,013	\$121,363	\$115,128	\$144,295	\$157,896	\$179,814	\$189,503	\$166,756	\$1,777,743
2	Nuclear Fuel	13,803	14,077	16,750	18,453	16,665	18,021	16,966	15,812	17,839	18,453	18,453	14,747	203,039
3	Fuel In Purchases	11,429	11,429	11,429	11,429	11,429	11,429	11,429	11,429	11,429	11,429	11,429	11,429	137,146
4	Fuel In Intersystem Sales	20,194	20,194	20,194	20,194	20,194	20,194	20,194	20,194	20,194	20,194	20,194	20,194	242,328
5	Total Fuel Costs	\$147,377	\$143,105	\$149,161	\$156,335	\$141,913	\$130,636	\$123,369	\$151,342	\$166,970	\$185,502	\$199,191	\$172,708	\$1,872,900
6	Total MWH Sales	6,365,394	6,225,905	6,682,140	7,401,893	7,149,897	6,535,220	6,396,100	6,335,661	7,249,734	7,850,398	8,318,757	7,975,758	84,487,506
7	Fuel Costs Incurred €/kwh	2,3153	2,2985	2,2173	2,1391	1,9948	1,9690	1,9287	2,3887	2,3031	2,4137	2,3945	2,1654	2,2164
8	SC Retail MWH Sales	1,713,645	1,686,876	1,750,925	1,855,370	1,820,860	1,692,459	1,677,945	1,676,762	1,836,012	2,004,877	2,133,615	2,058,954	21,975,399
9	SC Fuel Costs	\$39,676	\$38,773	\$39,003	\$36,688	\$36,140	\$33,832	\$33,363	\$40,053	\$43,544	\$48,392	\$51,039	\$44,585	\$487,063
10	(Over)/Under on Exhibit 5													\$63,365
11	Purchased Capacity Over Collection													(60,000)
12	SC Fuel Costs													\$480,428
13	SC Fuel Cost €/kwh													2,2317

McManeas Supplemental
Exhibit 1

REVISED McManeas Exhibit 6

DUKE ENERGY CAROLINAS
 SOUTH CAROLINA FUEL CLAUSE
 2008 ANNUAL FUEL HEARING
 PROJECTED FUEL FACTOR BY CUSTOMER CLASS

		SC Environmental Costs (Over)/Under Recovery			
<u>Summary ¢/KWH</u>		<u>SC Fuel Cost from Exhibit 6</u>	<u>from Exhibit 7</u>	<u>from Exhibit 8</u>	<u>Combined Projected Fuel Factor</u>
1	Residential	2.2317	-0.0217	0.0439	2.2539
2	General/Lighting	2.2317	-0.0168	0.0352	2.2501
3	Industrial	2.2317	-0.0114	0.0212	2.2415